

VZCZCXYZ0001  
PP RUEHWEB

DE RUEHDM #0786/01 3140740  
ZNY CCCCC ZZH  
P 100740Z NOV 09  
FM AMEMBASSY DAMASCUS  
TO RUEHC/SECSTATE WASHDC PRIORITY 7014  
INFO RUEHLO/AMEMBASSY LONDON PRIORITY 0773  
RUEHFR/AMEMBASSY PARIS PRIORITY 0732  
RUEAIIA/CIA WASHINGTON DC PRIORITY  
RUCPDO/DEPT OF COMMERCE WASHINGTON DC PRIORITY  
RUEATRS/DEPT OF TREASURY WASHINGTON DC PRIORITY  
RHEHNSC/NSC WASHDC PRIORITY  
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL PRIORITY

C O N F I D E N T I A L DAMASCUS 000786

SIPDIS

DEPT FOR NEA/ELA, NEA/FO, EEB/EX, EEB/ESC/TFS, L/EB;  
COMMERCE FOR BIS/SONDERMAN/CHRISTINO  
NSC FOR SHAPIRO/MCDERMOTT  
TREASURY FOR HAJJAR/CURTIN  
PARIS FOR NOBLES  
LONDON FOR LORD

E.O. 12958: DECL: 11/10/2019  
TAGS: [ECIN](#) [ECON](#) [EINV](#) [PGOV](#) [PREL](#) [SY](#)  
SUBJECT: DEBATE ON PUBLIC-PRIVATE PARTNERSHIPS REVEALS DEEP  
DIVISION ON ECONOMIC REFORM

Classified By: Charge d'Affaires Chuck Hunter for reasons 1.4(b,d)

-----  
Summary  
-----

¶1. (C) Providing a snapshot of a building internal debate on economic liberalization, the British Syrian Society held a conference in Damascus entitled "Public-Private Partnerships" from October 30 to November 1 at the request of Syrian Deputy Prime Minister for Economic Affairs Abdullah al-Dardari. The conference, aimed at drawing interest from foreign investors in Syrian infrastructure projects, focused on Public-Private Partnership (PPP) opportunities in the oil and gas, electricity, social housing and transportation sectors of the Syrian economy. Dardari is fighting claims that his efforts to liberalize Syria's economy have increased unemployment and left the sagging public sector vulnerable to outside competition. Indeed, many see the Syrian government's decision to review its EU Association Agreement as a direct rebuke of Dardari's policies because he was the driving force in actualizing a deal last December. Discussion throughout the two-day affair underscored the gap between government bureaucrats ready to impose regulations and conditions and private financiers eager to minimize red tape. President Bashar al-Asad skipped his expected appearance as the event's keynote speaker, stirring speculation that internal government rifts over economic policy are becoming a political liability. Whether PPP models can flourish in a developing state-run economy remains to be seen. End summary.

-----  
Background  
-----

¶2. (U) At the request of the Deputy Prime Minister for Economic Affairs, Abdullah al-Dardari, the British Syrian Society organized a Public-Private Partnership Conference in Damascus from October 30 to November 1. The conference focused on four key infrastructure sectors that have been identified by the SARG for PPP: oil and gas, electricity, social housing and transportation. The ministers for each of these sectors participated in the conference and outlined the PPP projects within their ministries that are being considered for tender. The conference had over fifty local and international speakers, moderators and panelists from

both public and private sectors. Attendance at the conference was highest during the opening remarks - when President Asad was expected - and during the final capstone session when the Deputy PM and five ministers spoke. Attendance at the middle sessions and workshops was noticeably less. The conference was spearheaded Dr. Fawaz Akhras, Co-Chairman of the British Syrian Society (and Bashar's father-in-law). Dr. Akhras is the Medical Director of Cardiac and Medical Health Services and Consultant Cardiologist at the Cromwell Hospital in London.

13. (U) Desperate for ways to generate funds to invest in public infrastructure projects, the SARG views public-private partnerships as a mechanism to attract foreign investment without abandoning government control of the economy. A recent policy paper describing the Syrian government's approach to PPP, entitled the "National Policy Paper for Public-Private Partnership", stressed the concept, rationale and objectives, requirements for success, legal and institutional framework, sectors targeted, and comparative advantage of using PPP in Syria. According to Dardari, new legislation is currently being drafted by the Office of the Prime Minister which will form the framework for PPP projects in Syria. The SARG regards public-private partnerships as major business and investment opportunities and is expected to announce significant PPP initiatives in the near future.

14. (U) The PPP conference comprised four sessions and four workshops, providing discussion on: What is PPP: The International Experience; Financing and Regulating PPP; Managing PPP Risk; and Syria's PPP: How to Make it Work. The final session, moderated by Dr. Akhras, included as members

of the panel Dardari, Minister of Finance Dr. Mohammed al-Hussein and Syrian Investment Agency General Director Dr. Ahmad Abdolaziz discussing strategy; the ministers of Electricity, Transport, Housing and Construction, and Petroleum and Mineral Resources discussing implementation; and non-government officials Aijaz Ahmad, Chairman and CEO, PanGro Develop Advisors, Paloma Perez de Vega, Loan Officer, European Investment Bank, Hassan Mukayed, Chief Executive Officer, Syrian-Qatari Holding, and Jacques Saade, President, CMA CGM (a French shipping conglomerate) discussing partnerships.

-----  
Deputy PM Dardari Focus of Plenary Session  
-----

15. (U) Although there were eleven panelists on the dais for the plenary session, Dardari was the focal point. He reviewed Syrian government plans for adopting PPP as part of a strategy to meet the SARG's desire to raise the growth rate to 8% and decrease the unemployment rate to 4% by 2015. Dardari stressed this challenge required competent implementation and operation. He confirmed the need for major PPP investments in electricity, transportation, and social services including education, health, water, housing and illegal settlement elimination. He added, "People need to feel better about the services being provided by the government."

16. (U) Dardari stressed the Syrian government would provide the legal and regularity framework for public-private partnerships that will be efficient and transparent. Dardari added the SARG would establish necessary financial guarantees and provide the human resources needed for PPP projects. Dardari announced that a PPP section was established in the Prime Ministry and that the SARG would recruit a Syrian executive to head the section in order to turn the SARG's PPP vision into reality.

17. (U) Questions centered on why Syria wanted to implement PPP, how PPP would be implemented, the risks/returns for implementing PPP, and the need for competition, transparency, and government financial guarantees. Dardari asserted the need to build a stronger legal framework in Syria to attract PPP investors and emphasized that competition would be a key

element of all PPP projects and that all bidders would be treated equally. Dardari acknowledged that, in the end, the Syrian government would do what it needed to do to get desired projects financed. Participants remained skeptical whether the government could truly make all the necessary changes to attract foreign investment.

-----  
Ministry of Finance Benefits Most from PPP  
-----

¶8. (U) Speaking after Dardari and striking a different emphasis, Minister of Finance Hussein emphasized that implementing PPP would not mean the SARG would abandon its responsibility for supporting the Syrian people. He said the Syrian government would continue to subsidize and control prices for government-provided products and services unless the private sector could offer better services at a lower cost. PPP, continued Hussein, encourages private investment and makes the private sector an effective partner by forcing it to assume more responsibility in the development process. He noted that while the SARG continues to supply the necessary budget financing, it is "good when someone lends a helping hand."

¶9. (U) Hussein said the Ministry of Finance stood to benefit the most from PPP. He explained projects would be prioritized within both five-year and annual plans, noting a lack of available funds often meant the deferral of many projects. PPP could provide the needed financing to accomplish projects in their programmed year. According to Hussein, the current state budget, which was referred to parliament last week, relied heavily on domestic resources

(98.5%) with only 1.5% planned financing from foreign resources. The Minister of Finance concluded by saying that PPP would not reduce the state budget but the additional financial resources would allow a shift of focus to other previously delayed projects in the best interest of the Syrian economy.

-----  
PPP Projects Identified  
-----

¶10. (U) The conference workshops focused on the application of PPP within the oil and gas, electricity, social housing and transportation sectors. Minister of Transport Yarub Badr noted his ministry was already implementing PPP projects at the Tartus and Latakia marine container terminals. He said nine additional PPP projects were presently under consideration, including the \$2.3 billion Damascus Metro, a \$4 million upgrade to the Damascus International Airport, a \$67 million express highway between downtown Damascus and the airport and the Damascus-Amman railway. Minister of Housing and Construction Omar Ghalawenji estimated Syria needs between 100,000 and 120,000 new housing units per year at a cost of \$2.5 - \$3 billion.

¶11. (U) Minister of Electricity Ahmad Qussay Kayyali stated since Syria could not currently meet the demand for electricity during peak periods and future demand was expected to grow at a rate greater than future supply, Syria desperately required addition power generation capacity. The first two projects under consideration for PPP were a 450 MW steam turbine plant and a 250 MW diesel plant. The ministry was also studying solar and wind renewable energy projects for PPP investment. Syria had been involved in PPP projects in oil and gas exploration and production since 1977. These projects were primarily of the Build-Operate-Transfer (BOT) type, where funding was obtained by the foreign oil or gas companies building the plants. Minister of Petroleum and Mineral Resources Sufian Alao said that joint ventures between Syria and foreign oil companies were currently pumping 180,000 barrels per day.

-----  
President Asad Conspicuous in His Absence  
-----

-----  
¶12. (C) President Asad was expected to attend the PPP conference's opening ceremonies and gala dinner. He conspicuously attended neither. It remains unclear whether Asad sought to avoid getting personally involved in a raging public discussion that has many of his ministers openly criticizing Dardari for pushing liberal reform and failing to meet targets for attracting foreign investment to Syria. Asad's skipping of the conference events is significant because, by not attending, Asad snubbed not just Dardari but also his father-in-law, Dr. Fawaz Akhras, who organized the conference. The PPP conference, which was conducted by the British Syrian Society at the request of Dardari, was denounced by the government-controlled al-Baath Newspaper as "another sign that the economic team is adopting foreign policies and recommendations." This commentary occurred before the conference started.

-----  
Public-Private Partnerships Not Privatization  
-----

¶13. (C) Though attended primarily by the local private business elite (in particular the banking sector), members of the diplomatic community and high-ranking SARG officials, the conference failed to draw many of our business contacts who told us they sent staff in their stead. The PPP conference signaled the SARG's recognition of problems in funding future large-scale infrastructure projects, but the internal Syrian government economic policy debate that was visible at the conference makes the successful implementation of PPP questionable.

¶14. (C) There were mixed opinions among the delegates about whether PPP could be successfully implemented in Syria. One attendee, a high-ranking official at HSBC Bank, commented that, due to the global economic crisis, there was limited financing available for large-scale public infrastructure projects and only well-structured, top-tier projects with transparency and government financial guarantees were currently receiving investment funding. Conversely, a prominent Syrian banker told us there was domestic and foreign bank interest in investing in Syria, citing a recent \$50 million project to construct a cement plant in Syria that he said was oversubscribed. If the SARG properly implemented a PPP framework, he said, funding would be available for future PPP projects. Skepticism nonetheless remained prevalent among local businessmen that the government would actually enact the needed reforms to attract desirable foreign investment. When asked by embstaff his opinion of the PPP conference, a prominent local Syrian businessman and a director of the British Syrian Society simply replied with a single word - "Liars."

¶15. (C) Dardari appeared defensive of his economic vision at times during the Q&A, perhaps a reflection of the recent public criticism of his policies. He stressed numerous times that PPP was not privatization and there would be no layoffs of civil servants. Nor, he added, would any public workers become redundant. Dardari identified the steps the Syrian government must take to successfully attract foreign investment including establishing the legal and regularity framework for public-private partnerships, providing necessary financial guarantees, and having transparency with full and open competition. Despite efforts to put a positive spin on the economy, many participants openly doubt whether the SARG has either the desire or political will to implement these required reforms.

HUNTER